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CURRENT INTELLIGENCE WEEKLY SUMMARY



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PART I

OF IMMEDIATE INTEREST

EAST-WEST NEGOTIATIONS

Resumption of private four-power negotiations during the second round of the foreign ministers' conference has not produced any modification of the uncompromising Soviet position which ties any Berlin solution to the establishment of an all-German committee to discuss, among other things, reunification.

In declaring "unacceptable" on 20 June the new Western proposal for continuing indefinitely the Geneva conference to consider the German problem as a whole, Soviet Foreign Minister Gromyko maintained Moscow's firm position. Reserving the right to comment further at a later date, he charged that the new proposal does not reflect a desire to find an acceptable substitute to the Soviet proposal for an all-German committee, since the Western plan differs basically from that of the USSR.

In a lengthy speech on 22 July, he defended Moscow's insistence on negotiations between the two Germanys as intended to permit a more realistic assessment of the difficulties to be overcome. In stating Moscow's position on the possibility of unilateral Soviet action, he pledged that while an interim agreement on West Berlin is in force, as well as during the negotiations following such an agreement's expiration, no unilateral action would be taken by the Soviet Union.

Khrushchev's remarks in Poland touching on the international situation--such as his pledge on 17 July in Szczecin of Moscow's continued support to preserve both the frontier between East and West Germany and the Oder-Neisse line "as if they were Soviet borders"--were probably primarily for local consumption. These remarks could also have been intended as a reminder that any solution to the Berlin-German problem must be negotiated in the context of a "two Germanys" approach and to put at rest any thoughts either inside or outside the bloc that Moscow would ever allow the establishment of a reunified Germany which would be either Western-oriented or independent.

Khrushchev refused, when approached directly at a Soviet Embassy reception in Warsaw on 21 July to comment on the progress of the negotiations, saying that it was Gromyko's position to do the "thinking on this subject."

Khrushchev chose the final communiqué to warn the Western powers that their stand in Geneva "may lead to aggravation of the situation, pregnant with danger to the cause of peace in Europe." The communiqué reiterated the admonition that the two countries will support East Germany "in measures which it may recognize as appropriate to liquidate the abnormal situation in Berlin." Calling for a

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heads-of-government conference "to lessen international tension," the declaration asserted that a certain amount of positive work had been done at the foreign ministers' level. It "emphasized the special right" of Poland and Czechoslovakia to participate in any East-West negotiations on the German problem and European security.

Meanwhile, it is rumored in Moscow that a top-level bloc conference of bloc leaders is to be held early in August.

The Soviet leaders probably view Vice President Nixon's visit to the USSR as a major opportunity to examine East-West positions with a view toward narrowing the gap sufficiently to satisfy Western requirements for holding a summit conference. Moscow probably hopes during the visit to probe for possible future movement in the American position, as well as any splits in Western unity.

Soviet propaganda has criticized the vice president and has alluded to incidents during his trip last year to Latin America as indications of what the peoples of other nations think of American leaders.

Khrushchev's decision to cancel his Scandinavian tour originally scheduled for 9-27 August leaves Moscow free to bid--perhaps during the vice president's visit--for an early summit meeting. Although the Soviet leaders would probably expect the Western powers to reject a call for a mid-August meeting on the grounds of insufficient time for preparation, they may believe that such a move would increase pres-

sure in the West, particularly on London, for agreement to hold a top-level meeting in the near future.

Despite the complete stalemate in the negotiations at Geneva, bloc propaganda and public statements by officials for both internal and external consumption continue to be optimistic about the final outcome, probably in order to keep the West from precipitantly breaking off the negotiations. However, a 20 July TASS article repeated a Western news comment on the alleged split growing between the United States and Britain over American "obstinate rigidity." Soviet propagandists have attacked President Eisenhower's proclamation of "Captive Nations Week," noting its coincidence with Vice President Nixon's trip to the USSR.

Nuclear Test Talks

Initial Soviet reaction to the Western proposal introduced at the conference on 20 July--providing for control-post staffs consisting of one third from the host country, one third from the "other side," and one third from the nonnuclear countries--was mixed. The Soviet delegate called the proposal a step forward, although not far enough "to become a subject for agreement between us." He opposed the introduction of personnel from nonnuclear countries because the "chief burden" should fall on the three nuclear powers, which bear the main responsibility under the treaty. He alleged that he was "taken aback" by the Western statement that the new proposal represented a final concession on staffing and charged that this

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sounded like an "ultimatum not conducive to agreement."

The Soviet delegation has continued to press for agreement on its draft proposal for an annual inspection quota, claiming that the American delegation's silence on this issue reflects pressure by circles in the United States opposed to agreement.

After much prodding by the Western delegates, the Soviet delegate on 17 July gave an item-by-item review of Moscow's position on the veto and added that the USSR continued to insist on the principle of unanimity on various topics, but did not care whether this was brought about by veto rights in the control commission or by specific treaty provisions for three-power unanimity on these topics.

West German Views

Following a period of confusion and Foreign Minister Brentano's recall to Bonn for discussions with Chancellor Adenauer on 16 July, the West German Government has apparently abandoned its 10 July memorandum to the Western powers suggesting an adjournment of the Berlin negotiations and calling for a summit conference on disarmament and unification. Bonn's press chief confirmed publicly that the memorandum represented Adenauer's views, despite press reports that it had been distributed without his consent. He also stated, however, that Adenauer still supported a summit conference with a broad agenda and considered it dangerous to limit such a meeting to the German and Berlin questions.

In a press conference on 20 July, West Berlin Mayor Brandt reiterated the Berlin government's stand on the points which must be covered in a Berlin settlement. Brandt said that Western rights in Berlin must be maintained undiminished, along with the right of free access, and that the gradual integration of West Berlin with West Germany must not be disturbed. He repeated his earlier suggestion for a German "interadministrative" commission to handle technical problems such as interzonal trade, travel, and cultural exchanges. Brandt emphasized that Berliners were less interested in obtaining formal Soviet recognition of Allied rights than in the fact that the Western powers would continue to exercise these rights.

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British Pressures

Continued British pressures to achieve a heads-of-government meeting were reflected in Ambassador Whitney's 16 July conversation with several representative Conservative Members of Parliament. The MPs stated that if a summit meeting failed to materialize, the British public would place the blame on the United States, and that some resentment would also be directed at the Conservatives, whose chances would be hurt in the general

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election anticipated this fall. The MPs noted that the British public is not optimistic that a summit meeting would produce results, so that even an unsuccessful meeting just prior to elections would not adversely affect Conservative prospects.

The British press, meanwhile, has taken a pessimistic

tone with the sharpening of the East-West differences at Geneva. Vice President Nixon's visit to the USSR is now seen as providing an opportunity for progress. The independent Times believes this should clarify Moscow's "real intentions."

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MIDDLE EAST HIGHLIGHTS**Iraq**

The celebration on 14 July of the anniversary of the Iraqi revolution now seems to have increased rather than alleviated political and communal tensions. The large-scale disorders which broke out in the northeastern center of Kirkuk on that day, even though they were suppressed within three or four days, may be symptoms of dangers still to come rather than a climactic development.

The scale and ferocity of the Kirkuk incident apparently owed as much or more to antipathies between the Kurdish and Turkoman communities as it did to possible Communist instigation. From the Qasim regime's standpoint, the most dangerous aspect of the affair was the rapidity with which the local police and army units disintegrated into factions which chose one or the other side in the fighting.

In a speech on 19 July before a Christian minority group, the prime minister again underlined his determination that his government, and his government alone, will decide who is plotting against the revolution, that the army must take orders only

from the high command, that those who mislead "simple soldiers" and instigate violence will be severely punished, and that it is his intention to act as the protector of the rights of all communities, parties, and individuals. Members of the Turkoman community are being urged to return to their homes and to assist the authorities in the investigation of the incidents.

Qasim has so far seemed to rely primarily on appeals to the better nature and patriotism of the Iraqis to prevent violence, which could lead to long feuds, particularly in outlying areas where old antagonisms are easily awakened. He may well have to take tougher preventive measures, however, if he is to avoid a general breakdown of government authority outside the capital.

Iraqi-Soviet Relations

Soviet leaders, concerned over current difficulties of Iraqi Communists, are placing major emphasis on efforts to show Qasim that the USSR is Iraq's best friend. The high-level delegation from Moscow to the 14 July celebration carried an invitation from Khrushchev to Qasim to visit

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the Soviet Union. Kuznetsov, Soviet deputy foreign minister who headed the delegation, saw Qasim at least twice during the festivities. Moscow radio's world-wide propaganda coverage of the Iraqi celebrations was favorable and extremely heavy--over 100 commentaries, which is far more than similar celebrations in the UAR have received.

UAR

Cairo's propaganda media have charged that the Kirkuk incident was part of a broader Communist plot. There is no evidence to support this assertion, which is itself a part of Cairo's not-too-subtle effort to embroil Qasim with the Communists as much as possible.

While the Cairo press has given most of its attention to the events in Iraq, it has also discovered a new Anglo-Israeli conspiracy concerning the Suez Canal. London has again indicated it hopes the World Bank will postpone consideration of the UAR's application for a canal-improvement loan until at least some more of the outstanding economic issues between Britain and the UAR have been

settled. While Nasir has repeated that he would like to see an improvement in his relations with Britain and France, this kind of pressure tactic has in the past produced a negative reaction from the UAR President, and the Egyptians associate it with their dispute over Israeli shipping rights.

Israel

The Israelis remain the UAR's most immediate foreign policy problem. Tel Aviv is continuing its diplomatic probing of the UAR's position on freedom of navigation of the Suez Canal. The Israelis regard this as primarily a political rather than an economic problem, since they claim that the port of Eilat at the head of the Gulf of Aqaba can adequately handle the relatively small percentage of Israel's foreign trade which moves toward Asia and East Africa.

The Israelis insist that their free use of the gulf, without which Eilat would be only a minor fishing haven, is the really vital issue, and the Suez Canal question is for them a kind of diplomatic buffer in front of it. With Prime Minister Ben-Gurion on vacation, Tel Aviv is not likely to take any new decisions on this issue unless some UAR action forces a move.

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FRENCH-TUNISIAN TENSIONS

Tension has increased along the Algerian-Tunisian border in the wake of an attack on 14 July by a 500-man band of Algerian rebels on a French outpost at Ain Zana. The attackers subsequently withdrew into Tunisia, which is apprehensive that the French may retaliate in force. Tunis has proclaimed a state of emergency in one border region after charging that unidentified Algerian elements had attacked Tunisian Army posts.

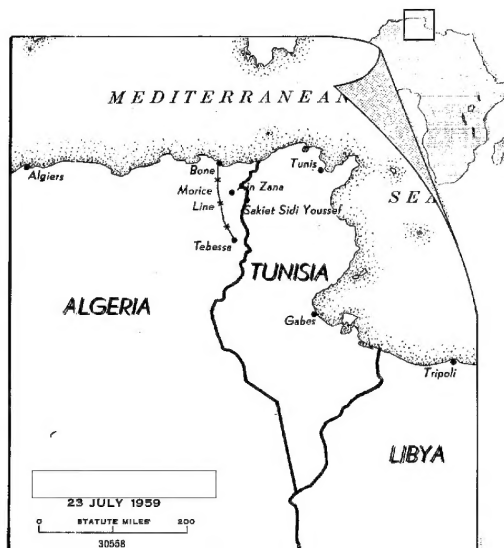
The current border tension appears to reflect attempts by the rebels to provoke incidents between the French and the Tunisians in order to direct international attention to the Algerian problem. The attack at Ain Zana--possibly designed to provoke a French strike into Tunisia--was on a larger scale than usual for the rebels, but appears to have resulted in few casualties and little damage.

Long-standing Tunisian concern over the situation along the border with Algeria--where Tunisians have been involved in incidents with rebel as well as with French troops--is doubtless heightened by recent rumors that the French plan a major strike at rebel installations in Tunisia. A rebel communiqué alleging that the French are planning a "massacre" of Moslems in the border area by troops disguised as Algerians appears designed to play on this concern and to blame the French in advance for any future incidents.

The "highly emotional" protests of Premier Debré and other French Government leaders

to American and NATO officials over prospective US and Norwegian shipments of arms and ammunition to Tunisia stem basically from French fears that this materiel might enable the rebels to mount a new offensive in Algeria. This would undercut French claims that the Algerian war has been won, and encourage additional domestic and international pressures on France for a rapid settlement. Paris has long maintained that the rebels have been able to hold out only because of foreign support and encouragement.

Norway has decided to refuse export licenses for the



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time being, and Tunisian officials deny any deal with the Norwegians. Oslo's decision has not deterred Paris from insisting that the United States halt its shipments.

Suspension of arms deliveries contracted for in June would probably evoke a

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violent reaction from Premier Bourguiba. American and Western prestige in Tunisia would almost certainly suffer, and prospects for an amicable settlement of the Bizerte question and other outstanding French-Tunisian issues would decline sharply.

Underlying the French protests is the general dissatisfaction of Paris over its failure to obtain solid American

backing for French policy in Algeria, establishment of tripartite US-UK-French consultation on global affairs, and American help in the French nuclear program. A similar French reaction to the recent Moroccan requests for American arms can also be expected. Although the French are reported reinforcing their forces in the border area, there is no firm evidence they intend to strike in force into Tunisia.

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PART II**NOTES AND COMMENTS****THE CUBAN SITUATION**

Fidel Castro's action on 17 July forcing President Manuel Urrutia's resignation by publicly defaming him has served once more to demonstrate his hold over the Cuban masses. His authoritarian behavior, however, has probably weakened his support among middle-class elements, where respect for democratic methods has always been strongest, and has tended to further Communist objectives.

Although Castro resigned as prime minister on 17 July in his maneuver against Urrutia, he remains the recognized "maximum leader of the revolution," the informal position that gives him his real power. The new president, the 40-year-old lawyer Osvaldo Dorticos, is expected to be a compliant front man for him.

Castro's major charge was that Urrutia's strong anti-Communist declarations on 13 July bordered on treason because they had given aid and comfort to the Cuban "reactionaries" abroad who are trying to sabotage the revolution and provoke foreign intervention by making false charges of Communist infiltration in the Cuban regime. Castro reiterated in his 17 July speech

that neither he nor his government is dominated by Communists and that Cuba's new democratic ideals prohibit "persecution" of Communists.

Communists quickly joined in the emotional public expressions of support for Castro and against Urrutia. A party leader, declaring that the revolution was in danger, called for the formation of a "truly revolutionary government" with Communist participation. Although Communists are unlikely at this time to be accepted into any government coalition, they have undoubtedly been encouraged by the events of the past week.

There are indications that Raul Castro, who as armed forces chief has facilitated Communist penetration of the military, may have gained increased influence in the government with Urrutia's ouster. Friction between Raul and Urrutia over government appointments may have contributed to Urrutia's ouster, and Raul has attended cabinet meetings in the past week, not the normal practice of military chiefs. Raul Castro remains his older brother's heir to leadership of the revolution.

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PEIPING'S EFFORT TO ESTABLISH PROPAGANDA NETWORK IN LATIN AMERICA

The touring delegation of Chinese "journalists," now in Cuba after visiting Chile, Uruguay, and Brazil, has been trying to develop a propaganda network in Latin America of local reporters in order to further anti-US sentiment in the area. The Chinese Communists

hope to build up popular sentiment favoring recognition of their regime in an area where no government has accorded recognition. Peiping, which reportedly plans to open a New China News Agency (NCNA) office in Chile, has appointed the editor of a Chilean Communist

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weekly as official NCNA representative in the country, and the delegation reportedly tried to hire local reporters in Uruguay.

While in Uruguay, the delegation attended the opening of a Uruguayan-Chinese Friendship Society. This makes the fifth such society in Latin America, and preparations are afoot to establish others, notably one in Colombia under the nominal leadership of the congressman who led the recent congressional delegation to the USSR and China.

Peiping appears to be making Cuba a center for its propaganda activities in the area. It has already established a press office in Havana and it plans to have the local Communist press print a Chinese-language newspaper. The Chinese will probably also exploit the new Latin American Press Agency, which is penetrated by Communists and has editorial offices in the same building as NCNA's Havana bureau.

The delegation of Chinese "journalists" had an interview with Raul Castro during which he told them, according to Peiping radio, that among Latin American youths Mao Tse-tung is "one of the most respected figures." In alleging many similar-

ities between Cuba and China, Raul Castro equated Chiang Kai-shek with Batista and added that the enemies of Cuba and China are supported by the "same international reaction."

The "journalists" have exploited all opportunities to hint at the desirability of Cuban adoption of Chinese Communist land-reform techniques; Peiping claims that at the recent international land reform forum in Havana, the delegation was besieged by Latin American delegates with questions on this subject. Peiping will probably try to impress a Cuban women's delegation now visiting China with the applicability of Chinese Communist "experiences" to Cuba.

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ARGENTINE NAVAL OFFICERS THREATEN MASS RESIGNATIONS

Argentine President Frondizi's determined stand to retain Rear Admiral Estevez as naval secretary, despite strong navy opposition, has strained further his military support and is a psychological handicap in dealing with continued labor pressures. Some 100 high naval officers have reportedly offered their resignations in protest.

Frondizi, who is dependent on the support of the armed forces, will probably have to give in shortly--as he did in the recent army crisis--in order to avoid a larger threat to stability.

Most naval officers are reported pressing for Estevez' ouster. The majority feel that

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his strong loyalty to Frondizi has limited his effectiveness in maintaining discipline and in presenting the navy's viewpoint, particularly concerning the need for stronger measures against the Peronistas and Communists.

Generally the same views were voiced by army dissidents a few weeks ago. Compromise partly resolved the army complaints and resulted in a number of command changes, as well as the appointment of a new army secretary. Moreover, the cabinet reorganization of late June, which also removed many sub-cabinet aides at least temporarily, quieted the considerable apprehension regarding Communist and Peronista infiltration of the government. The appointment of Alvaro Alsogaray--a strong exponent of free enterprise--as minister of economy and acting minister of labor reportedly pleased the majority of the armed forces.

Alsogaray is using a public relations approach in trying

to counter widespread criticism of austerity measures under the US-backed stabilization program. In weekly speeches, he emphasizes the government's efforts to bear the brunt of austerity and to prevent price gouging. Admitting that the cost of living has more than doubled over the past year, Alsogaray is trying to persuade workers to reduce their wage demands until production increases.

This will be a herculean task, however, in view of low real wages, the various limitations on expanded output, and threats by Peronista and Communist labor groups for joint action against the stabilization program. Metallurgical workers struck on 20 July and threaten to promote a general strike if wage demands are not met.

Such agitation increases Frondizi's reliance on the armed forces and in part is responsible for the tension in the armed forces.

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COMMUNIST ACTIVITY IN HONDURAS INCREASING

The weak Communist party in Honduras has become increasingly active since 12 July when armed civilians and the military put down a revolt led by an inveterate plotter who was supported in the main by national police. The Communists are exploiting the long-standing civil-military feud that has become intensified since the revolt and may be able to consolidate gains being made if President Villeda Morales does not act quickly to curtail their influence. Honduras is not likely, however, to fall under Communist control in the foreseeable future.

The role of the armed forces has long been a subject of con-

troversy in Honduras. They consider themselves the guarantors of Honduran political institutions and have strenuously resisted all attempts to encroach on their constitutionally endorsed status of autonomy within the government. On the other hand, the administration Liberal party believes the civil government will never be secure until the military is brought under control. Even though the armed forces remained loyal during the 12 July attempt, militant members of the Liberal party demand that the power of the army--which now is responsible for supervising the national police--must be drastically reduced.

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The antimilitary line has been taken up vehemently by Communist-led students who, like hundreds of other civilians, were armed by the government during the early hours of the revolt. They have since taken over some police functions. Communist-controlled information media in Tegucigalpa have supported student demands that the police not be put back under military control. The Communists will presumably attempt to furnish a nucleus for a re-organized police force and have already suggested a Communist for the post of chief.

Villeda Morales has tried to avoid taking sides. He is probably aware of the peril presented by the Communists in their attempt to win influence by promoting the extreme demands of the Liberal party. However, the President's past hesitation to confront difficult situations with firmness suggests that he will take no effective action against the Communists.

The army is restrained from taking over the country only by the realization that such action would provoke widespread and sustained civilian resistance. Outbreaks are possible for some time both in the capital and in outlying areas, where the Liberals control armed groups of civilians known as the "black army."

The 500-member Honduran Communist party, first organized in 1954, is weak and has suffered from lack of adequate financing and from factionalism. Even its efforts to win control of the country's largest segments of organized labor have had little success. Its greatest successes have been among student groups in the capital, where the party's influence is largely indirect, working through student leaders sympathetic to declared Communist aims. A Communist writer on the editorial staff of a leading Tegucigalpa newspaper for more than a year has converted the paper into an outlet for the Communist line.

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THE JAMAICAN ELECTION

Jamaica's role in the year-old West Indies Federation is the main issue in the island's 28 July general election. This could be the decisive factor in determining the future of the Federation, since Jamaica is the largest and wealthiest unit in the organization.

The Peoples National party (PNP), which controls the present government, and the Jamaican Labor party (JLP), are the main contestants to fill the 45 seats in the House of Representatives. The dominant figures in the campaign are the rival party leaders, Norman Manley of the PNP

and Sir Alexander Bustamante of the JLP.

Bustamante, who from the beginning has opposed the Federation, has made it the overriding political issue in the election campaign. He is exploiting the fact that sentiment against the Federation is rampant among business and commercial interests, which are convinced that Jamaica will suffer industrially and financially for the benefit of less-developed West Indian colonies. They are particularly apprehensive about the proposed federal customs union, and see in the Federation

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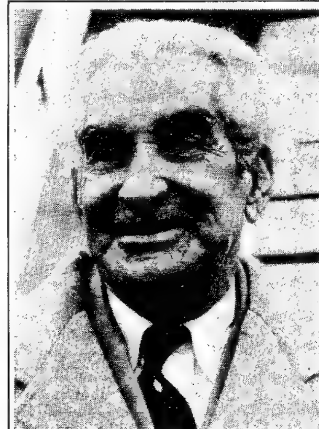
plan to levy income taxes retroactively to 1958 a direct threat to Jamaica's 1957-67 development program which is designed to entice new investments.



MANLEY

In the face of such vehement opposition and the anticipated closeness of the election, Manley, a principal sponsor of federation, has yielded to opin-

to allow for the island's "special circumstances," namely, that Jamaica's superior economic position and its greater population and wealth merit economic concessions and a more prominent



BUSTAMANTE

role in the Federation Government.

Although it is doubtful that either Bustamante or Manley would at the present time actually withdraw Jamaica from the Federation, a Bustamante victory would be interpreted as a greater threat to Britain's effort to bring the scattered Caribbean colonies to independence through this device.

The vehemence with which the issue is being debated and especially Manley's change of view have already weakened the Federation. Jamaican hostility toward the Federation also strengthens the hand

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ion within his own party. Although he also leads the party controlling the federation legislature, he now is on record favoring Jamaica's withdrawal unless the constitution is revised

of Trinidad's anti-American premier, Eric Williams, in Federation policies.



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NEW SETBACK FOR CHRISTIAN DEMOCRATS IN SICILY

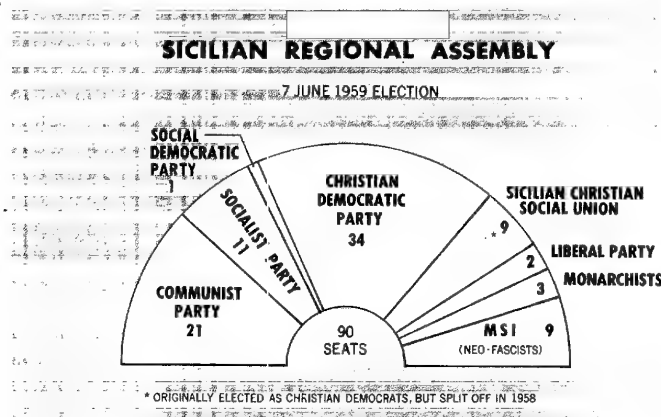
The Christian Democratic party (CD) on 21 July failed to line up sufficient votes among the right-wing parties in the Sicilian assembly to assure a regional government excluding Communists, Socialists, and Silvio Milazzo's dissident Social Christian faction. Milazzo now has a better chance of being elected regional president when the balloting, scheduled for 27 July, takes place. The Sicilian impasse will tend to increase the polarization within the CD at the national level between those forces led by Premier Segni, who favor continued acceptance of the support of the Monarchist and neo-Fascist parties, and the forces led by ex-Premier Fanfani, who favor a center-left orientation.

Although Milazzo heads a Sicilian assembly group of only nine votes out of 90, his strength lies in his willingness to accept the 32 votes of the Communists and Nenni Socialists if the Christian Democrats prove unwilling to compromise with him on his terms, which are certain to include retaining him as regional president.

The CD leaders may feel forced to accept this compromise, but until now they have been unwilling to appear to reward rather than punish a notorious flouter of party discipline and of the Vatican injunction against

collaboration with the Communists. The CD was able to block the election of Milazzo on 21 July by boycotting the balloting and thereby precluding a quorum--a temporary expedient which only revealed the CD's uncertainty that its alliance with the right would hold together during a secret ballot. On 27 July the quorum rule will not apply.

Fanfani will use the CD's failure to arrive at a working majority with the right-wing parties in Sicily to support



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his contention that the party's destiny lies in an "opening to the left." To the consternation of Premier Segni, this view was supported by party secretary Aldo Moro in a speech to regional party leaders on 3 July. Whatever its outcome, the struggle for power in Sicily is certain to accentuate cleavages between the two major trends in the party.

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FINLAND AND AUSTRIA AND THE LITTLE FREE TRADE AREA

Pravda's warning of 19 July on the dangers to Finnish neutrality in joining the proposed little Free Trade Area (FTA) will most likely deter Finland from formally joining that group. The Finns were warned that participation in such "NATO-dominated, closed economic organizations" would place them under the control of the United States. The Soviet warning may also complicate Austria's participation for the same reasons.

Finland's interest in joining any little FTA is motivated by a desire to preserve the competitive position of Finnish goods in Western European markets; about 62 percent of Finnish exports in 1958 went to Western Europe. The Finns have been concerned, however, over Moscow's reaction to their proposed participation and have sought to assure the USSR of Finland's good will and determination to maintain the level of its trade with the Soviet bloc; this amounted to about 25 percent of Finland's foreign trade in 1958.

Finnish officials have publicly stated Finland would participate only in a purely economic organization without any political and supranational overtones. Finland's future moves will definitely be influenced by the USSR's attitude, since the present Finnish Government, including President Kekkonen, is not disposed to act contrary to explicit Soviet wishes. The Finns may try to reach bilateral arrangements with the members

of the new group in order to retain its markets in Western Europe.

The Soviet warning will aggravate Vienna's problem in working out an acceptable relationship with the Common Market countries, which account for half of Austria's total trade. Soviet officials have repeatedly warned the Austrians that association with the Common Market would be considered a violation of Austria's military neutrality law and have hinted that association even in concert with other countries would be objectionable. Vienna has nevertheless clung to the hope that it might be able to participate in the broader European economic association which the little Free Trade Area is intended to promote. Austria has little interest in the smaller grouping as such, which accounts for only 11 percent of Austria's foreign trade.

The Soviet attack is not likely to deter the other "Outer Seven" countries from proceeding with their plans, any more than a Soviet attack on the Common Market in early 1954 prevented the formation of that organization. The economic ministers of the Outer Seven countries meeting near Stockholm agreed in principle on 21 July to the formation of a little FTA. Finland's nonparticipation would eliminate British concern that Finnish adherence would prove a political impediment to association of the smaller group with the Common Market in a larger FTA. (Concurred in by ORR)

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KHRUSHCHEV'S VISIT TO POLAND

During Khrushchev's visit to Poland from 14 to 23 July for the 15th anniversary of Poland's liberation from Nazi domination, he repeatedly spoke on topics which have a special appeal to the Polish people. The Soviet leader expressed his approval of party First Secretary Gomulka and his policy of independence in Poland's internal affairs. The Polish party, he said, holds firmly to the correct course toward the solution of the problems of "building socialism" in Poland. The Polish people's reception of Khrushchev has been calm and friendly, but marked more by curiosity than enthusiasm.

Khrushchev in numerous speeches played on the deeply ingrained fear of renewed German aggression, apparently seeking to assuage the old anti-Russian feeling by emphasizing the German danger. He reassured the Poles that any future East-West agreements would contain the guarantee that Poland would retain the former German territories gained at the end of World War II. In his speech at Szczecin Khrushchev appeared to reject the reunification of Germany and thus ease Polish apprehensions of a unified Germany on its Western border. Pledging Moscow's support not only for the Oder-Neisse line but also for the existing border between East and West Germany "as if they were Soviet borders," Khrushchev declared, "We shall fight for that frontier against any foe who may try to encroach on it."

Khrushchev categorically rejected the thesis that Poland occupies a special place among the "socialist countries" because of differences in ap-

proach to internal problems. This thesis, he said, was advanced by the imperialists in hope of tearing Poland away from the "socialist camp" and sowing distrust between the Polish people and the peoples of the other bloc countries.

In none of Khrushchev's public utterances has there been any indication of pressure on Poland to adhere more closely to the Soviet pattern. When Gomulka declared in a speech at Rzeszow that "only we are responsible for everything that goes on in this country," Khrushchev nodded, while staring impassively at the crowd. Khrushchev stated in a speech in Warsaw on 21 July that "one cannot demand that the Polish party, in solving any question of the internal life of Poland, pursue a policy which coincides fully with the policy of the Communist party of the Soviet Union. Each people must build socialism and advance toward Communism by taking into consideration its national, cultural, and ideological peculiarities."

The Soviet leader also endorsed Gomulka's policy of voluntary collectivization of agriculture, stressing that while collective farming is the best way of organizing farm work, no one should be forced into joining a collective farm. He admitted that the reorganization of agricultural production is a complicated process and that the USSR itself had encountered "no little difficulties on this road."

Khrushchev voiced the most outspoken criticism of the commune system made so far in public by any high Soviet official in a speech to Polish peasants at a collective farm

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near Poznan from which Western newsmen were barred. While he did not mention specifically the Chinese communes, Khrushchev told the Polish peasants the USSR has found through experience that communes are the wrong way to start on the "road to socialism." The Chinese will undoubtedly interpret Khrushchev's comments as implicit criticism of their communes and will probably urge that Soviet opposition to them be kept in private channels.

Turning to Polish internal party affairs, Khrushchev struck at both dogmatists and revisionists within the Polish party. Khrushchev maintained that while revisionism remains the greatest danger, the dogmatists who opposed Gomulka's policies and at the same time claimed they were good friends

of the Soviet Union were doing the party great harm. Their activities could only lead to the weakening of the party and provide "nourishing soil for revisionists and opportunists." Those who oppose the policies of the party and Gomulka, Khrushchev declared, if not revisionists themselves, are tools of the revisionists, and constitute a menace to the party.

A threatening statement in the final communiqué calling for the end of the "occupation regime" in West Berlin, coupled with a pledge of Soviet and Polish support for East Germany in measures it might consider necessary "to liquidate the abnormal situation in West Berlin," was the only specific pronouncement on the Berlin problem during Khrushchev's tour. 25X1

FORTHCOMING SOVIET CENTRAL COMMITTEE PLENUM ON AGRICULTURE

The USSR has announced that a plenum of the central committee will be held in late November and early December to consider progress under Khrushchev agricultural programs. It will probably consider measures to increase agricultural output and labor productivity in view of the extremely ambitious Seven-Year-Plan goals for agriculture, the continuing problem of making further labor available to industry, and the harvest results this year, the prospects for which now seem no more than average.

The advance notification of time and agenda marks the second time this has been done--the first was for the June 1959 plenum--and continues the practice of publicizing central committee plenary sessions as propaganda forums for boosting Khrushchev's programs.

A congress of collective farmers scheduled for early in 1959 has not been held. It seems likely that it was postponed to await high-level resolution of problems of agricultural organization.

Discussion of agriculture in the central press in recent months indicates that various proposals by Khrushchev are being pushed. With a view to improving the productivity of the kolkhoz system, more widespread use of the wage-payment system has been urged to replace the system now used by most kolkhozes. This will make it easier to put collective farmers on a strict profit-and-loss basis and will bring the accounting of collective farms in line with that of state enterprises. Additionally, expansion of the indivisible fund--capital assets of the kolkhoz held jointly by

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its members--has been cited as the best source for capital to improve agricultural production through mechanization and for soil and stock improvement.

It will also supply capital for a progressive construction program which will gradually eliminate the differences between the city and farm through the rebuilding and consolidating of villages into "city-like" communities with modern urban facilities. Also to be built are numerous projects such as electric power stations, agricultural processing plants, and cultural centers. Such building is to be carried out jointly by several kolkhozes working through interkolkhoz agencies.

On organization topics, the press has noted the possibility of creating collective farm unions at successive administrative levels, abolition of repair-technical stations, and the restriction of responsibility of the Ministry of Agriculture to broad planning and control functions. The plenum will probably also consider a new

movement to transfer skilled chairmen of leading collective farms to backward collective farms in order to bring them up to a higher standard. Khrushchev initiated this movement in his speech at the June 1959 plenum.

Organizational and administrative changes in Soviet agriculture are also likely to be reviewed and appraised at the plenum. The need to strengthen collective farms so as to make it economically feasible for them to purchase and operate their own machinery--now that the machine-tractor stations have been abolished--has resulted, through mergers, in a rapid decline in collective farms during the past 18 months. Khrushchev stated in March 1958 there were about 78,000 collective farms at that time. About a year later, he indicated the number had decreased to about 68,000. The 1959 semiannual plan fulfillment report indicated that the total number of collective farms in the USSR on 1 July 1959 was about 60,000. (Prepared by ORR)

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TRAINING OF SOVIET FORCES IN EAST GERMANY

The training program this year of the 20 divisions of the Group of Soviet Forces, Germany (GSFG) has not changed appreciably from previous years, despite the Berlin crisis. All line divisions are at their home stations conducting regimental-level tactical training. Activity during the last two months has included a large-scale command-post exercise, a weapons display, and a ten-day divisional exercise in June.

The start of the summer field-training period was highlighted, as it was last year,

by a large display of ground-forces equipment and demonstrations of its use of two of the major training areas during the first ten days of May. The most significant event was the laying of a pipeline, without flotation equipment, across the Elbe River. Mock-ups of American missiles were used as targets during strafing demonstrations. River-crossing demonstrations, including the use of amphibious equipment, were again stressed this year. During this period the line divisions generally remained at their home stations, while tank, artillery, and

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antiaircraft and engineer details of battalion size rotated to firing ranges and field-training areas.

Most of the six ground armies have conducted their own command-post exercises since last winter. During early June the Soviet Union closed all of southern East Germany to Allied military missions and conducted its largest command-post exercise so far this year. The exercise was controlled by Headquarters, GSFG, and involved the command and communications elements from at least five of the ground armies and their organic line divisions. It is believed that there was only minor troop participation.

From 12 through 22 June, major elements of the Twentieth Guards Army left their home stations in the Berlin area and conducted a division-size exercise, including a crossing of the Elbe River. This exercise was similar to one conducted by this army in March 1958.

It is expected that the scope and tempo of field maneuvers will increase during the summer, culminating with exercises involving whole armies during September and October. After that, about one third of GSFG's 315,000-man force--the three-year men--will be rotated home. The next training year will then commence as their places are taken by recruits.

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RUMANIAN REGIME PLANS TO RAISE WORKERS' LIVING STANDARDS

In a report to a plenum of the Rumanian party central committee, First Secretary Gheorghiu-Dej announced that the regime will raise the low living standard of the workers and create incentives to help meet the demands of the new six-year plan (1960-65). This announcement may also be intended to mitigate the effects of recent political repression. The measure will bring Rumanian conditions more in conformity with those in the satellites which have been able to provide an increase in the standard of living during the last few years.

This program is to be accomplished by an average increase of 10 percent in wages, price reductions on 2,600 industrial and food items, income tax reductions, and an average 50-percent increase in pensions. Workers in the lower wage brackets will receive the highest wage increases--20 to 30 percent. Foremen, who will spur the next productivity drive,

are to receive highest rates among the better paid groups. All of these benefits may add to an increase in real income of 15 percent or more, which would fulfill the 1960 wage plan in 1959. The need for such drastic action, however, tends to contradict earlier statements by Gheorghiu-Dej that the Rumanian standard of living had increased 26 percent between 1955 and the end of 1958.

Benefits mentioned in the announcement are almost entirely for the urban worker. The pension increases apply to several additional categories, but exclude most peasants, who have yet to be pensioned. Peasants are told to be content with the boost in living standards they received in 1957, when prices for produce were raised and compulsory produce deliveries were abandoned. These benefits are undoubtedly exaggerated, and additional incentives may be necessary to counterbalance the effect on production of the

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hard agricultural line which has brought about 67 percent of agricultural land into the "socialist sector."

The regime may have trouble holding the line against inflation after this reform, since the output of consumer goods in 1959 is unlikely to equal the

increase in real wages, and reserve stocks do not appear adequate to make up the difference. Price controls and increased imports at the expense of investments probably will be necessary if the standard of living is to rise.

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BULGARIAN ECONOMIC DIFFICULTIES

The Bulgarian regime, recognizing serious shortcomings in its accelerated economic program, is maneuvering to absolve itself of blame in the likely event the 1959 economic targets are not met. A central committee plenum on 9 July approved a party letter calling for nationwide discussions of problems in the critical areas of construction, industry, labor payments, internal trade, and livestock production prior to consideration by central committee plenums scheduled monthly from October 1959 through February 1960. These plenums could witness a downgrading of targets and organizational or personnel changes. There may be purges or demotions of individuals considered inefficient, handy as scapegoats, or both.

Party First Secretary Todor Zhivkov on 9 July presented fragmentary information on the performance of the economy for the first six months of the "leap forward." Industrial production by midyear had risen 21.5 percent--even higher than the substantial rise during the comparable period of 1958--and labor productivity 5.4 percent. By far the larger share of the increase of industrial output resulted from additions to the labor force which, according to the 1959 plan, apparently put to work almost all of the

unemployed by the end of the year. Both industrial output and labor productivity will have to be sharply accelerated, however, if the 1959 "leap" target is to be met.

The regime has allowed itself some flexibility in relating economic achievements to goals by maintaining more than one set of targets. The present rate growth in industrial production, while not sufficient to meet the present 1959 target, will permit realization of the goal announced last October to fulfill the original five-year (1958-62) goal by 1960 or 1961. In agriculture, "leap" demands were for a 100-percent increase in production this year, although the 1959 plan calls for only a 74-percent increase, and fulfillment by 1960 of the original five-year-plan goal for 1962 could require as little as a 14-percent increase this year.

The future plenums probably will have to recognize that the extreme goals of the "leap" will not be reached. Since the "leap" cannot be disavowed, however, short of a major shake-up in the party's leadership which does not appear likely at this time, it may be quietly overlooked in favor of more rational goals, in the same way that the more extreme ideological claims made last November for the

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"leap" have been quietly dropped.

Perhaps the most significant result of the 9 July plenum was Zhivkov's attempt--by calling for a nationwide discussion of outstanding problems--to establish a collective responsibility of the party leadership, the party rank and file, and the masses for the probable failure of the "leap." Despite the claim that it evolved out of a "popular upsurge," there is little doubt that the program is popularly identified with the politburo and with Zhivkov himself.

By establishing nationwide responsibility, Zhivkov would be protecting both the party from popular criticism and himself in his position as first secretary from those who could use the failure of the "leap" as an argument that he should be replaced. Such a sentiment could conceivably arise from within the party's ranks, espoused by those who reportedly are discontented with the "leap" because of the excessive strains imposed by its targets.

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ETHIOPIA INCREASES TIES WITH BLOC

Ethiopian Emperor Haile Selassie's recent visit to the USSR and Czechoslovakia resulted in significant agreements with both countries and may indicate a modification in his country's traditional foreign policy orientation.

The Emperor obtained a \$100,000,000 credit from Moscow

The leaders of the two states also decided to raise their respective diplomatic missions to embassy level, and Czechoslovak President Novotny accepted an invitation to visit Ethiopia.

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the Czech credit will total \$20,000,000 for, among other things, the purchase of military equipment and the construction of a munitions factory. The only previous Czech aid to Ethiopia was a \$2,000,000 line of credit extended last year for the purchase of hospital equipment and supplies.

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Rumors persist that a secret protocol provides for Soviet military assistance for Ethiopia's nascent territorial army and an additional \$7,000,000 for the Emperor's personal security forces.

Czechoslovakia offered to deliver capital goods to Ethiopia on a credit basis and to negotiate economic, cultural, and technical assistance agreements.

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WEST AFRICAN MEETING

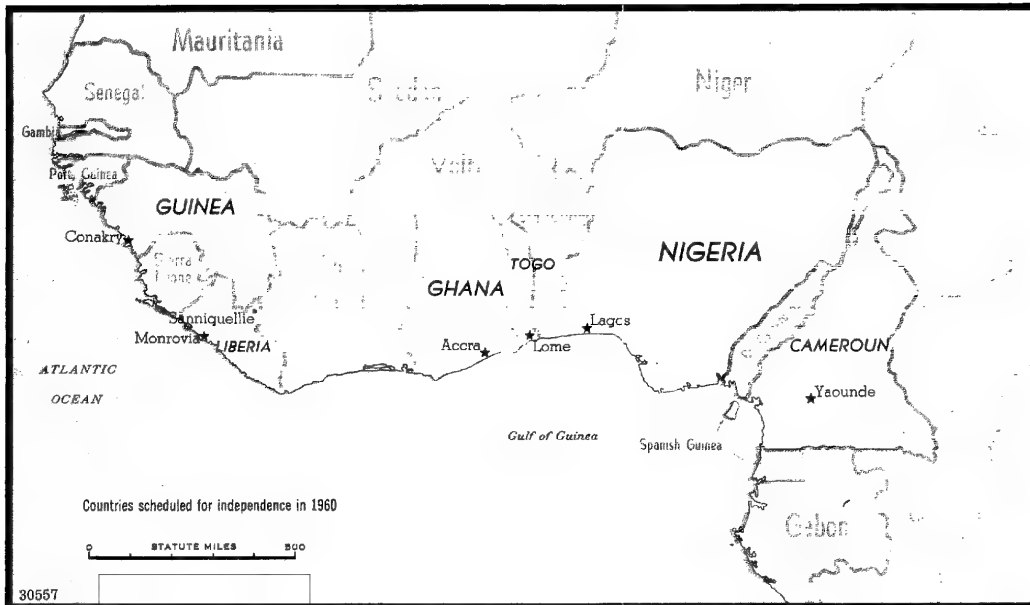
The first meeting of the leaders of West Africa's three independent nations--Liberia, Ghana, and Guinea--in Sanniquellie, Liberia, ended on 20 July with agreement in principle on a proposed Community of Independent African States to be discussed at a larger conference in 1960. A nine-state conference of foreign ministers is to be held at Monrovia in early August; it is expected to consider a number of controversial problems, such as the Algerian and Cameroun situations.

President Tubman of Liberia, Prime Minister Nkrumah of Ghana, and President Touré of Guinea met in an effort to reconcile their opposing views. Tubman, who distrusts the militant African nationalism espoused by Nkrumah and Touré, has favored a loose association of states cooperating in economic, cultural, and health matters but preserving their own political identities. Nkrumah, on the other hand, envisions a union under one flag, with common foreign policy and defense arrangements.

The discussions, the initial sessions of which were reported to be chilly and constrained, appear to have resulted in a Tubman victory and a setback to Nkrumah. Touré, who reportedly desires to negotiate an agreement with Liberia to permit the shipment of Guinean iron ore through Liberian ports, gave Tubman increasing support as the talks progressed. Tubman's keynote address stressed that any definitive arrangement must await the independence in 1960 of Cameroun, Nigeria, and Togo--all of which are now governed by moderate groups.

A declaration issued by the three leaders after their talks proposed a larger conference next year to organize a "Community of Independent African States" to be based on principles which clearly reflect Tubman's concept of a future African organization. Each state would retain its own constitutional framework and national identity and control over its foreign policies. All African states would be eligible for membership on gaining independence. The principal avowed

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purpose of the Community would be to help dependent African territories obtain early independence.

The three leaders strongly criticized the proposed French nuclear tests in the Sahara, condemned racial discrimination by South Africa, and proposed that a meeting of the foreign ministers of nine independent African states--expected to begin on 4 August in Monrovia--consider recognition of the Algerian provisional government. The August meeting may create problems for the West, particu-

larly France. Guinea, and even Liberia, may recognize the Algerian rebels.

A Cameroun government-in-exile may be proclaimed by exiled nationalist extremists, who hope to receive some diplomatic support from the independent African states. The extremists seek renewed pressure on the part of the African nations for further examination of the Cameroun situation in order to obtain new elections before the Cameroun becomes independent next January.

IRAN FACING MORE ECONOMIC STRAINS

A sharp rise in the cost of living in Iran, sparked principally by an extreme increase in food prices earlier this year, is causing Tehran growing concern. The price increases were particularly severe in urban

centers, reflecting in part heavy livestock losses during the especially harsh winter and the initial inflationary consequences of last year's tremendous expansion in government spending.

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The situation has been made worse by the anticipated loss of \$26,000,000 in expected oil revenues resulting from cuts in oil prices. Although the consortium of Western companies operating Iran's nationalized oil industry has increased output sharply in an effort to ease the loss of revenue, production this year probably will fall short of the 1,000,000 barrels-a-day average the government feels is essential.

On the labor front unemployment is high and a serious strike in the oil fields was averted only by a government-sponsored wage and fringe benefit settlement. The basic causes of discontent remain.

The present crisis reflects a number of short-term difficulties, including low agricultural output and excessive land speculation for which the government is planning administrative remedies. The Shah, for example, has recently made several state-

ments that the government must accept full responsibility for controlling prices. He and other Iranian officials seem to be unaware, however, that the basic cause of the rapidly growing inflationary pressures is the rise in government spending at a rate faster than the growth in real output.

During Iran's last fiscal year, government spending increased 32 percent, and this year an additional 20-percent increase has been budgeted. Since government revenues will fail to meet planned expenditures, Tehran probably will resort to deficit financing, thus increasing the upward pressure on prices. The real over-all deficit in the current budget is about \$124,000,000. The Soviet Union has recently included in its propaganda criticism of the inflationary symptoms in Iran, linking them directly to American-supported military expenditures.

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DEVELOPMENTS IN THE PHILIPPINES

The approaching Philippine provincial and senatorial elections in November have intensified internal strains within both the governing Nacionalista party and the newly formed opposition coalition of the Liberal and Progressive parties. Nacionalista leaders are accusing President Garcia of trying to handpick candidates for provincial governorships as well as the party's ticket for the 8 out of 24 Senate seats to be contested. Several prominent Nacionalistas, including two senators up for re-election, are openly at odds with Garcia. Although no major split in his party is imminent, Garcia reportedly fears that the old

guard is maneuvering to support another candidate for the 1961 presidential nomination.

At the same time, opposition unity is threatened by the rival political ambitions of coalition leaders and by an almost total lack of Liberal-Progressive cooperation on the local level. Under pressure from its old-guard wing, which opposes any concessions to the Progressives, the Liberal party executive committee has unilaterally announced a coalition senatorial slate which includes two Progressives, one of the two disaffected Nacionalista senators, and a weak group of Liberals.

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In response to the Liberal move, Progressive leaders are discussing with dissatisfied younger Liberals and anti-Garcia Nacionalistas the possibility of a "third-force" ticket. The Progressives apparently hope these discussions will force changes in the Liberal party ticket before the filing deadline on 10 September. A Liberal-Progressive coalition collapse, however, would seriously reduce opposition chances of making headway against the well-entrenched Nacionalista party machine.

Although the campaign will be fought primarily on domestic issues, including charges of inefficiency and corruption leveled against the Garcia administration and the possible inflationary effects of his ef-

forts to stabilize the peso, it may also affect the course of current diplomatic talks on American bases.

Considerable progress has recently been made toward an agreement on US relinquishment of unneeded base lands, but the sensitive issue of jurisdiction over American troops remains unresolved. Ambassador Bohlen has warned that unless early agreement is reached, preoccupation with the campaign and the stimulation of nationalist feeling may again jeopardize the negotiations. This danger is pointed up by the current public charges of a local prosecutor that petty thieves caught by Filipino guards at a US air base have been "shot in cold blood," while the guards are protected from Philippine prosecution.

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PART III

PATTERNS AND PERSPECTIVES

SOVIET PIPELINES AND OIL EXPORTS

The USSR is seeking to increase oil exports to obtain additional foreign exchange necessary for the purchase of equipment and technology required to achieve the Seven-Year-Plan goals in several basic industries. The current expansion of the Soviet oil pipeline system which taps the large oil reserves of the Urals-Volga region will not only supply increasing bloc consumption but will also permit increased oil exports.

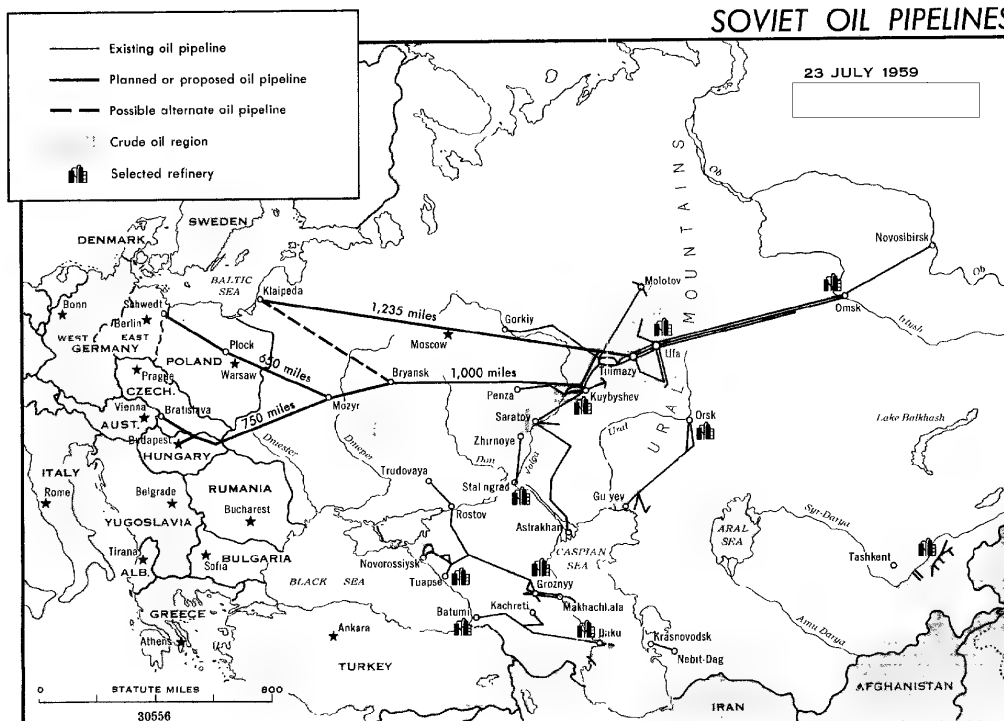
The most significant extension of the pipeline system is west from the Urals-Volga region. This extension will serve refining centers in the European USSR and the European satellite countries. It also will include pipelines to the Baltic, where a large petroleum base is being developed, in order to facilitate export ship-

ments to the free world, principally the countries of Western Europe.

Reserves and Production

The Urals-Volga region, which has estimated proved reserves of 22 billion barrels of crude oil, is the largest known oil region in the USSR, accounting for more than 75 percent of the estimated Soviet reserves. Soviet reserves of 29 billion barrels compare with American reserves of 33 billion barrels, but such reserves are dwarfed by the 174-billion-barrel reserves of the Middle East countries.

Soviet proved reserves are growing rapidly, not only from new discoveries but also from the further exploration of known deposits, and may considerably

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exceed American reserves by 1965.

The USSR produced 2,300,000 barrels of petroleum per day (b/d) in 1958 and plans to increase production to 4,700,000 b/d during the Seven-Year Plan. Approximately 68 percent of the 1958 production came from the Urals-Volga region.

SOVIET BLOC PETROLEUM BALANCE					
(THOUSAND US BARRELS PER DAY)					
USSR			EUROPEAN SATELLITES		
1958	1965*		1958	1965*	
2,306	4,700	TOTAL AVAILABLE	366	672	
1,832	3,440	TOTAL CONSUMPTION	232	584	
1,470	2,840	CIVILIAN	184	504	
360	600	MILITARY	48	80	
808	960	TOTAL FOR EXPORT	110	40	
120	400	TO BLOC	50	10	
188	560	TO FREE WORLD	60	30	
122	400	TO WESTERN EUROPE	48	20	
166	300	LOSS IN REFINING	24	48	

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Increasing Exports

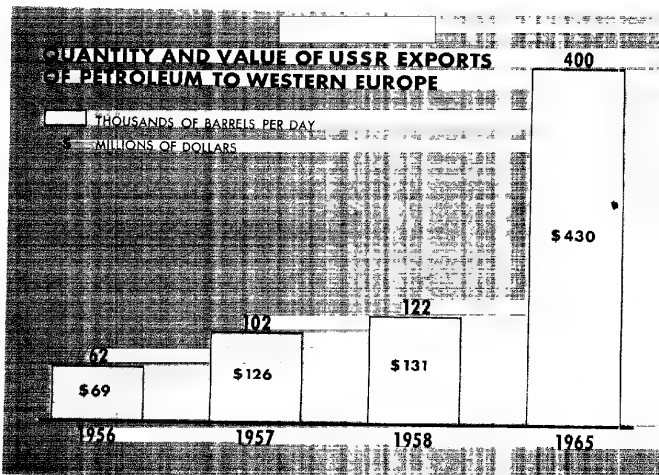
While the USSR expects to double the rate of production of crude oil during the Seven-Year Plan, domestic consumption during this period is not expected to increase as much. Thus surplus production and more efficient refining practices are expected to give the USSR an exportable surplus of about 960,000 b/d by 1965--more than three times the 1958 level.

Exports of petroleum to the other countries of the Sino-Soviet bloc are expected to account for about 400,000 b/d in 1965, leaving 560,000 b/d available for export to the free world. Allowing for Soviet deliveries elsewhere in the free world, the USSR by 1965 could, from its

own resources, sell Western Europe 400,000 b/d of crude, 8 percent of the estimated minimum 5,000,000 b/d Western Europe will need at that time.

Even this small share of the European market could, through uneven distribution, affect some Western European countries substantially. In 1958 the USSR supplied 75 percent of the oil imports to Iceland and over 50 percent of those to Finland. Soviet oil available for export to Western Europe by 1965 is expected to be more than 25 percent of the import requirements of the Scandinavian and Benelux countries and West Germany--an area which could readily be served from the export base being developed at Klaipeda (Memel). The USSR could gain a dominant position as the oil supplier of one or more of these countries.

In 1958, the USSR sold 122,000 b/d worth \$131,000,000 to Western Europe. If the price of petroleum is maintained at the 1958 level and if Soviet exports of petroleum to Western Europe increase in 1965 to 400,000 b/d, the value of this trade to the USSR will be \$430,000,000 by then.



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Plans for Pipelines

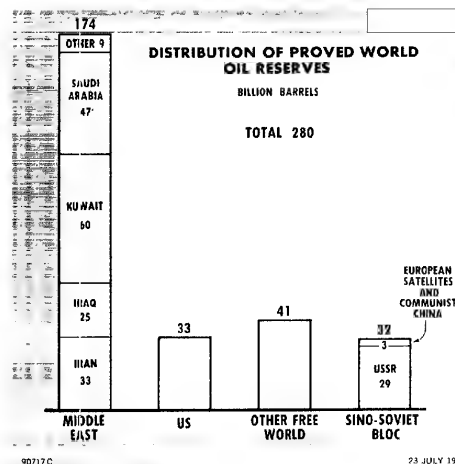
Pipelines will not only permit increased deliveries but also will reduce transport costs and thus the over-all costs of crude oil and products. One westward branch will extend a line to Poland and East Germany and another line to Czechoslovakia and Hungary. Another branch, terminating at Klaipeda on the Baltic Sea, will handle exports to Western Europe and the Scandinavian countries. Both of these branches may be tied in with lines servicing the western USSR.

Completion dates depend largely on the extent of Western support available; the USSR is now seeking engineering advice and pipe from Sweden for construction of at least that branch of the system designed to supply oil to Western Europe.

The quantities of petroleum to be transported by the new branches of the pipeline system are large enough to justify, on an economic basis, the use of large pipe, more than 24 inches in outside diameter. However, the United States, the only country with enough capacity in large-diameter piping to meet requirements, prohibits the export of large-diameter pipe to the bloc. Consequently the USSR may be planning more than one parallel line of 20- or 24-inch pipe. Western European countries have already been approached for pipe of these diameters.

The Klaipeda line from the Urals-Volga area could be completed in less than three years with Western equipment and technical aid. If forced to rely on its own resources, however,

the USSR will require four to five years to construct a line from Tuimasy in the Urals-Volga area to Klaipeda. There is no evidence that construction on such a line has begun, but there is a depot at Klaipeda which was in partial operation in 1958.



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As a time-saving alternative, the USSR is considering an extension of the pipeline already under construction to Bryansk to service the depot at Klaipeda. Such a line could be completed by the end of 1961--even without Western equipment and technical aid.

The USSR plans to have the branch now planned to service East German, Polish, Hungarian, and Czech refineries in operation at a 320,000 b/d rate in 1965. The satellites are largely responsible for producing or procuring the materials necessary for the construction of the portions of the line within their boundaries and are also seeking some material for this construction from the West.

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FRANCE'S DEFENSE MOBILIZATION PROBLEMS

France is undertaking a reorganization of its defense system and a modernization of its armed forces in line with new French strategic and tactical concepts. Military leaders are taking steps to convert French divisions into small, highly mobile striking forces designed to combat "brush-fire" wars either within the French Community or, with a view to De Gaulle's demands for a greater role in Western global strategy, anywhere in the world. This planning is more in keeping with national than with NATO requirements. While the reorganization is well suited to French needs in North Africa, the protracted and costly Algerian fighting pre-empts funds and resources which would be required for the modernization program.

Reorganization

A comprehensive overhauling of the entire French defense structure has been accelerated under De Gaulle in terms of the missions, organization, and

equipment of the individual armed services. The defense reorganization embodied in decrees issued last January rests on three premises: (1) "defense" permeates every aspect of national life; (2) the distinction between states of "peace" and "war" is dwindling; and (3) the executive must have sufficient authority and a sufficiently flexible defense organization to deal with whatever form a national threat may take.

A new category of national "defense service," supplementing normal active military service, was created to meet emergency needs not of a strictly military nature. During a general mobilization or partial "alerts," property can be requisitioned and citizens drafted for service.

The Defense Committee, closely resembling in composition and responsibilities the National Security Council of the United States, has been established to determine defense policies for France and the French Community. The

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Constitution of the Fifth Republic has enhanced the president's responsibilities in defense matters, and the military has direct access to him. The



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chief of staff, General Ely, now reports directly to the president and the premier rather than through a defense minister.

Nationalism Conflict

Considerations of national prestige seem likely to steer France's modernization of its armed forces away from common Western defense concepts embodied in NATO. De Gaulle is more interested in achieving self-sufficient national armed services oriented toward both the European and global interests of France.

The French desire for a nationally controlled nuclear deterrent has led to increased spending on items duplicated within NATO. Thus France has persisted in pushing a costly nuclear weapons program; it is developing an attack-bomber for carrying nuclear weapons, as well as missiles adapted to nuclear warheads, rather than concentrating on badly needed all-weather interceptors; and it has sacrificed some of the submarine and escort vessel

construction desired by NATO in favor of an expensive new aircraft carrier program.

A more serious divergence of views is apparent in French ideas on army reorganization. Citing their experience in Indochina and Algeria, French Army planners now stress the desirability of replacing the present French NATO divisions in Europe with small, highly mobile ground striking forces capable of intervening rapidly anywhere in the French Community or at remote points where "brush fires" warrant attention. These striking forces would be backed up by large local reserves capable of rapid mobilization and trained primarily to combat anticipated Communist guerrilla and sabotage action.

Both Marshal Juin, the "voice of the army," and air force General Challe, the supreme commander in Algeria, have hailed the French Army organization and tactics for operations against guerrillas there as patterns which Western armed forces should adopt to prepare



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for the most likely form of hostilities. This runs counter to present NATO planning in its tendency to stress national missions and national control.

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Modernization vs. Algeria

Overshadowing French modernization plans for the individual armed services is the detrimental effect of the four-and-a-half-year-old Algerian war. The army has suffered from attrition of arms and equipment and from the dispersal of the French NATO-committed divisions from Europe into small units for garrisoning and conducting operations against guerrilla groups. The fact that approximately half of France's army--including 10 of its 14 NATO-committed divisions--is in Algeria would seriously disrupt full French mobilization. Major French Army participation in large-scale NATO maneuvers has virtually ended.

French Air Force readiness in Europe has been affected adversely as a result of the withdrawal to Algeria of many pilots and technicians. The military aircraft industry has been kept going primarily by foreign orders, and several promising aircraft research and development programs have been severely cut back or eliminated. The navy has been the least directly affected of all the services, but budgetary cuts have crippled its new construction programs.

Some senior pro-NATO officers apparently fear France risks having outmoded armed forces in several years, both because of inadequate funds for new weapons development and production, and because its army will not be organized in pentomic divisions for nuclear warfare.

Economic Aspects

The conflict of priorities between modernization and the Algerian war and the dispute over the form modernization should take are heavily influenced by economic conditions. The cost of replacing worn and obsolete equipment and of es-

FRANCE: DEFENSE EXPENDITURES*
MILLION DOLLARS
(CONVERTED AT 493.7 FRANCS TO THE DOLLAR)

		%	GNP**
1956	2,975	7.9	37,498
1957	3,160	7.6	41,396
1958	3,354	7.1	47,398
1959	3,443 (EST)	7.0	49,294 (EST)

* NATO DEFINITION ** OEEC DEFINITION
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sential services such as communications has risen sharply since 1957. The price increase for naval materiel, for example, is put at approximately 20 percent. Rising costs particularly affect the replacement in Algeria of US-supplied equipment, much of which now is becoming worn out more rapidly than envisaged originally.

The 1958 and 1959 defense budgets include the cost of Algerian operations which formerly were covered by an "extraordinary" defense budget. This budgetary consolidation, although technically desirable, has in practice facilitated internal transfers of funds to the Algerian campaign at the expense of maintenance, construction, and research and development.

Even if major hostilities in Algeria ceased, a considerable portion of the armed forces is likely to be retained there for years to maintain order and continue the public works and administrative burden

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undertaken by the army. Moreover, the demands of the Constantine Plan for the economic development of Algeria will bear directly on the amount of funds available for defense. The plan will be increasingly costly during the next five years, and barring expanded hostilities, will probably deflect resources which might otherwise go to a major expansion of the defense plant.

De Gaulle's stabilization program has been more successful than anticipated. If the gains can be consolidated and

the economy further expanded, the growing gross national product (GNP) promises to make increased funds available for all government programs. As in recent years, however, the government may choose to channel a decreasing percentage of GNP to defense needs. Moreover, the Algerian war continues to take priority over armed forces modernization, and pressures which would orient modernization toward purely national rather than NATO goals appear more likely to grow than diminish.

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IMPLICATIONS OF SPAIN'S ECONOMIC STABILIZATION PROGRAM

The Franco regime is taking a calculated risk with the program recently adopted to reorient and stabilize the Spanish economy. The program on 20 July brought Spain full membership in the organization of European Economic Cooperation (OEEC) and extensive financial assistance from the United States and international lending organizations. The Spanish public, however, fears that the stabilization program will aggravate rather than remedy the present economic situation and that the austerity called for by the plan may have serious political repercussions. Failure of the program would probably set off a new inflationary cycle and cause widespread popular unrest, posing a serious challenge to Franco's position.

The Stabilization Program

Since mid-February Spanish Government officials have negotiated with experts of the OEEC and International Monetary Fund (IMF) on a program designed

to help Spain achieve internal financial stability, redress its deteriorating balance-of-payments position, and qualify for full OEEC membership. The program calls for a reduction in public expenditures, restrictions on the extension of bank credit in the private sector, elimination of price and trade controls, removal of curbs on private foreign investment, and a unified exchange rate for the peseta--which has been devaluated from 42 to 60 to the dollar.

Spain has agreed to liberalize its imports gradually, freeing most imports of raw materials and foodstuffs from quota restrictions, and to convert by stages most of its trading arrangements with OEEC countries from a bilateral to a multilateral basis.

In return for these reforms, Spain is to receive a "package" of outside aid to help it meet balance-of-payments needs and to bolster confidence in the currency during the first six

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months following liberalization. Of a total of \$245,000,000, the IMF will supply \$75,000,000, the OEEC \$100,000,000, and American banks \$70,000,000. The United States will supply an additional \$130,000,000 in the form of defense support (\$40,000,000), surplus agricultural commodities (\$60,000,000), and loans from the Export-Import Bank (\$30,000,000).

Official Government Attitude

Spain's reform program is a tacit admission that its previous economic policies have failed to halt inflationary pressures and that a broad re-orientation of the economy is now necessary to hasten Spain's adjustment to conditions prevailing elsewhere in Western Europe--particularly the trend toward freer trade and full convertibility of currencies.

The regime has not yet moved to inspire popular confidence in the program, however, and has not yet issued a clear statement on the program's objectives and implications. Franco himself, although said to be fully in favor of the program, has avoided a public commitment of support, perhaps to escape personal blame for hardships it is likely to impose on industry and labor.

Recent pronouncements on the stabilization program by Commerce Minister Ullastres and Finance Minister Navarro Rubio have contained inconsistencies and omissions and have sidestepped the more controversial aspects, thereby tending to increase public apprehension. On 1 June Ullastres stated that stabilization could be achieved without harsh repercussions on production and employment, and that the program would make better living standards possible. He denied that internal demand would drop, although he anticipated some price increases and economic dislocations, and made

no direct promises of aid for firms faced with reduced sales.

Both ministers have been less than candid regarding credit curbs. Ullastres has publicly denied that private bank credit is now being restricted. Rubio stated on 9 June that during 1959, credit would not be reduced below the 1958 level but would be expanded by \$262,000,000 in the private sector. This figure actually would represent a reduced rate of expansion, however, since in 1958 credit grew by \$500,000,000.

Reaction of Economic Groups

Banking and business circles are fearful that the program's austerity measures will slow rather than stimulate economic activity. They are particularly concerned that credit curbs will put even relatively efficient enterprises out of business and force a general curtailment of production. These groups point out that during the past year many firms, faced with declining sales and yet obliged to keep permanent workers on the payroll, have accumulated large inventories and eliminated overtime work. Restrictions on credit are likely to force these manufacturers to suspend operations. A temporary shortage of funds has already obliged a number of firms to suspend payments to creditors.

Labor, which has increasingly felt the pinch of rising living costs since the last general wage boost late in 1956, is apprehensive of further reductions in overtime pay and further layoffs of temporary workers. Such cutbacks, together with the government's opposition to general wage increases despite rising prices, led to strikes in depressed industries in the Barcelona area in May.

Outlook

The success of the stabilization program will depend

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largely on the government's ability to resist pressure from various sources for a modification of its "austerity" aspects and a return to deficit financing as an easier and more popular approach to industrial development. Refusal of the government to continue with any of the specified reforms would probably bring a threat from the IMF and the OEEC to withhold further financial aid.

The American Embassy in Madrid feels the program has too great an imbalance between expenditures in the public and private sectors of the economy. With a ceiling of \$1.905 billion imposed on 1959 public expenditures--an increase of \$119,000,000 over the amount spent in 1958--and private investment expenditures expected to decrease from one billion dollars in 1958 to about \$762,000,000 as a result of credit curbs, the belt tightening is all in the private sector. The embassy points out that the cut

in private sector expenditures may create dislocations unless austerity measures in some areas are combined with measures to stimulate demand for current production of other areas.

Too sharp effects on the private sector, such as reduced sales, cuts in overtime, further layoffs, and a sharp rise in prices, would probably force the government to scuttle the program and grant a general wage increase. The resulting new inflationary cycle would aggravate hostility to the regime among opposition groups, labor, and small businessmen. Any indication that the country was approaching economic chaos could well impel Franco's main props--the army, church, big bankers, industrialists, and landowners--to withdraw their support. Serious popular unrest might impel top military leaders to seek Franco's removal in order to forestall a complete collapse of public order.

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SOVIET ARCHITECTS TAKEN TO TASK

A dispute concerning architectural design in the Soviet Union has emerged in the Soviet press for the first time since the 1954-1955 period, when Khrushchev condemned the elaborate style of Stalin's day and supported the standardized functional designs which characterize Soviet architecture today. Soviet architectural theoreticians evidently are trying to find some way to reconcile the regime's desire for inexpensive standardized styles with the need for individual expression felt by many architects.

The disagreement has apparently become important enough

for the regime to issue indirect warnings that architects must remain within specified bounds. The May issue of Architecture USSR directed architects to stop "contemplating Western styles" and work out a "truly scientific" style, and Khrushchev took architects to task in his speech at Kiev the same month.

The two sides of the dispute are sharply illustrated in two recent issues of the Soviet architectural journal, one in May which is devoted entirely to the dull standard construction endorsed by the state, whereas the March issue features imaginative sketches of both

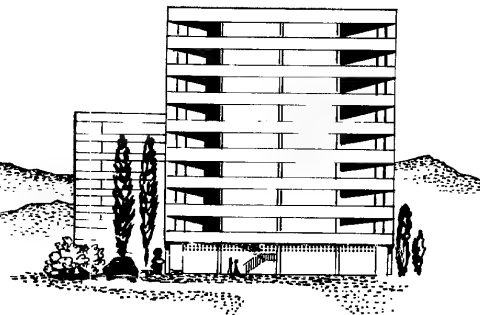
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**DESIGN PRESENTLY
ENDORSED BY
REGIME**..FROM JANUARY ARCHITECTURE USSR**DESIGN BY STUDENT OF
MOSCOW ARCHITECTURAL
INSTITUTE**..FROM MARCH ARCHITECTURE USSR

APARTMENT BUILDING



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housing and industrial construction by architectural students in Moscow. These designs would be considered unusual and expensive in the West.

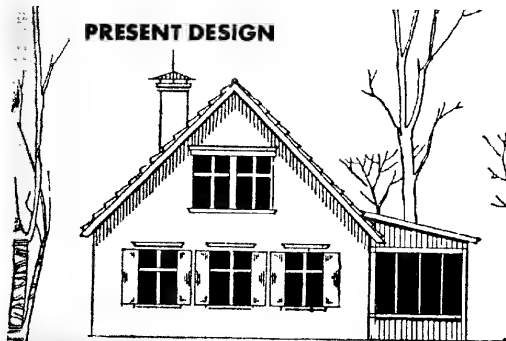
The May issue scores the error of "finding the highest form of architecture in the imperialist countries" and the failures of some designers to incorporate the views of Marx and Lenin in their efforts. The line is sharply drawn between what can and cannot be done. Soviet architects and builders are urged to study present-day foreign experience in the development and use of advanced methods and materials in construction, but are also told "no one at any time has directed Soviet architects to adopt the styles and artistic qualities of

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contemporary Western architecture."

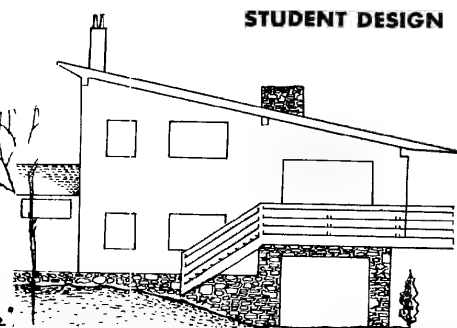
This recent attack on Westernism is focused on a Soviet work entitled "The Basic Theory of Soviet Architecture," published in late 1958. Despite the author's cautious approach in praising certain Western developments and in stating that something could be learned from the West, he is attacked in a heavy-handed way in Architecture USSR by a fellow architect obviously stating the party's views.

A more immediate source of annoyance to the Soviet regime than the theoretical study, however, may well be the contents of the March 1959 issue of Architecture USSR. That issue was



HOUSE

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STUDENT DESIGN

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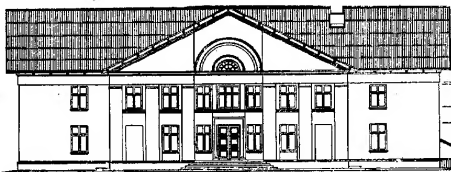
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dominated by contemporary architectural designs of apartment houses and individual houses drawn up by architectural students, and it included some institutional and industrial structures closely resembling contemporary Western designs.

This presentation contrasts sharply with most past issues of this journal. In the first part of the February issue, for example, there were sketches of apartment houses with asbestos-cement walls--the material used in the World War II temporary buildings in Washington--and the January issue featured the usual sketches of block and panel construction. In the past,

the cost of which is already exceeding plans. Speaking on construction in May, Khrushchev said, "Many of our architects still do not understand fully the tasks facing them. They do not always give good advice." During his tour of the American exhibit under construction in Moscow, he displayed interest in the construction techniques being used, particularly those for the geodesic dome of the central pavilion.

Khrushchev has had to deal with architects before. He took strong measures in 1954 and 1955 to subdue certain architects who were accused of violating

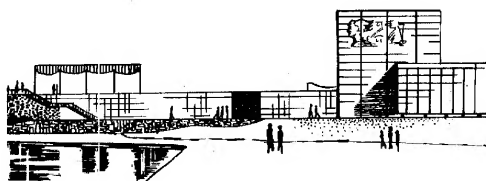
PRESENT DESIGN

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the appearance of contemporary designs in Architecture USSR has coincided with special occasions, such as the World Festival of Youth and Students held in Moscow in 1957 and the Congress of the International Union of Architects, also in Moscow, in 1958. It is possible that the Brussels Fair provided the stimulus for the March 1959 issue.

That issue was undoubtedly objectionable to the more conservative faction of Soviet architects. Khrushchev apparently felt it necessary to warn architects indirectly not to gaze longingly at Western designs when every effort should be made to carry out the USSR's present large-scale housing pro-

STUDENT DESIGN

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the party and government line. Then, as now, the line called for the simplification of designs in order that buildings would be more functional, cheaper, and suitable for industrial methods of construction, although the line then represented a step toward Western practice and away from the old-fashioned ornateness of Stalin's era.

The earlier dispute reached a peak at the Builders' Conference of December 1954, when Khrushchev outlined his position on the issue. Following the general adoption of his recommendations, a meeting of architects was held in the fall of 1955 during which there was considerable feeling expressed on the part of a group of undetermined

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size which opposed parts of the scheme--apparently those parts which confined them to the job of grinding out standardized designs. In a decree of November 1955, extravagances in architectural design and construction were cited as being deviations from established Soviet policy. Leading architects were dismissed, others sharply reprimanded, and all design organizations sternly warned to adhere to the party line.

The main target of the decree was unnecessary expenditures on exteriors of buildings, especially housing in Moscow. "Millions of square meters of housing" could have been built with the resources used in the construction of unessential columns, cornices, and towers, it was stated. Architects were instructed to concentrate on providing more living area and to work out designs suitable for mass production techniques. Models of public buildings shown at the Soviet exhibit in New York nonetheless show that, despite criticism, these same failings of Soviet architecture persist.

Although some architects undoubtedly chafed at such assignments, until recent months there had been no sign that disagreements between the state and architects were again of significant proportions. The recent intensity of the discussions concerning architectural policy may be related to the fact that the present expanded housing construction program is apparently scheduled to level off at a plateau after 1960. Since it would take Soviet builders several years to develop the techniques required for construction along contemporary lines, certain architects may be lobbying for consideration of these designs now.

No significant shift to contemporary designs could be contemplated seriously before 1960, however, if then, since the present big push in housing construction is under way and building costs are not being reduced as planned. Shifts to contemporary designs would increase costs substantially.

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